

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Port Austin Area Sewer and Water Authority	County Huron
Audit Date 2/29/04	Opinion Date 7/23/04	Date Accountant Report Submitted to State: 8/4/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) Brining & Nartker, P.C.			
Street Address 64 Westland Drive		City Bad Axe	State MI
		ZIP 48413	
Accountant Signature <i>Brining & Nartker, P.C.</i>			Date 8/4/04

**PORT AUSTIN AREA SEWER
AND WATER AUTHORITY
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT
FEBRUARY 29, 2004**

PORT AUSTIN AREA SEWER AND WATER AUTHORITY

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BRINING & NARTKER, P.C.

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INDEPENDENT AUDITORS' REPORT

Honorable Authority Members
Port Austin Area Sewer and Water Authority
Port Austin, Michigan

We have audited the accompanying financial statements of the Port Austin Area Sewer and Water Authority, as of and for the year ended February 29, 2004, as listed in the table of contents. These financial statements are the responsibility of the Port Austin Area Sewer and Water Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Austin Area Sewer and Water Authority, as of February 29, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Port Austin Area Sewer and Water Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2004, on our consideration of the Port Austin Area Sewer and Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.



BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2004

BRINING & NARTKER, P.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Authority Members
Port Austin Area Sewer and Water Authority
Port Austin, Michigan

We have audited the financial statements of the Port Austin Area Sewer and Water Authority, as of and for the year ended February 29, 2004, and have issued our report thereon dated July 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Port Austin Area Sewer and Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Authority, the State of Michigan, and the United States Department of Agriculture Rural Development. However, this report is a matter of public record and its distribution is not limited.



BRINING & NARTKER, P.C.
Certified Public Accountants

July 23, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING BALANCE SHEET - ALL PROPRIETARY FUND TYPES
FEBRUARY 29, 2004**

			TOTAL	
	SEWER	WATER	2004	2003
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash (Note 2)	\$ (53,025)	\$ 59,659	\$ 6,634	\$ 17,697
Accounts receivable	30,832	65,949	96,781	89,147
Inventory	2,348	11,640	13,988	13,988
Prepaid expense	11,624	4,723	16,347	22,431
TOTAL CURRENT ASSETS	<u>(8,221)</u>	<u>141,971</u>	<u>133,750</u>	<u>143,263</u>
RESTRICTED ASSETS - BOND RETIREMENT AND EQUIPMENT REPLACEMENT:				
Cash in bank - savings (Note 2)	153,212	27,853	181,065	261,907
Assessments receivable (Note 4)	205,288	-	205,288	237,773
Direct connection receivable	-	-	-	363
TOTAL RESTRICTED ASSETS	<u>358,500</u>	<u>27,853</u>	<u>386,353</u>	<u>500,043</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST (Note 3)	6,624,358	2,293,851	8,918,209	8,890,347
LESS: ACCUMULATED DEPRECIATION	(2,766,775)	(1,009,518)	(3,776,293)	(3,573,188)
PROPERTY, LAND AND EQUIPMENT - NET	<u>3,857,583</u>	<u>1,284,333</u>	<u>5,141,916</u>	<u>5,317,159</u>
TOTAL ASSETS	<u>\$ 4,207,862</u>	<u>\$ 1,454,157</u>	<u>\$ 5,662,019</u>	<u>\$ 5,960,465</u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING BALANCE SHEET - ALL PROPRIETARY FUND TYPES
FEBRUARY 29, 2004
(Continued)

<u>LIABILITIES AND FUND EQUITY</u>	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>	
			<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES:				
Revenue bonds payable - current (Note 5)	\$ 50,000	\$ 11,000	\$ 61,000	\$ 60,000
Land contract payable - current portion (Note 5)	-	1,739	1,739	36,981
Accounts payable	50,654	16,706	67,360	69,306
Due to other governmental units - Village of Port Austin	-	8,307	8,307	8,234
TOTAL CURRENT LIABILITIES	<u>100,654</u>	<u>37,752</u>	<u>138,406</u>	<u>174,521</u>
LONG-TERM OBLIGATIONS				
Bonds payable (Note 5)	250,000	923,000	1,173,000	1,233,000
Land contract payable (Note 5)	-	149,650	149,650	151,256
Less: Current maturities	(50,000)	(12,739)	(62,739)	(61,606)
TOTAL LONG-TERM OBLIGATIONS	<u>200,000</u>	<u>1,059,911</u>	<u>1,259,911</u>	<u>1,322,650</u>
DEFERRED ASSESSMENT REVENUE	205,288	-	205,288	238,093
TOTAL LIABILITIES	<u>505,942</u>	<u>1,097,663</u>	<u>1,603,605</u>	<u>1,735,264</u>
FUND EQUITY:				
Contributed capital (Federal revenue sharing)	51,225	-	51,225	51,225
Contributions and grants in aid of construction	4,497,521	866,940	5,364,461	5,364,461
	<u>4,548,746</u>	<u>866,940</u>	<u>5,415,686</u>	<u>5,415,686</u>
Less: Accumulated depreciation	(1,924,162)	(373,650)	(2,297,812)	(2,179,214)
Contributed capital - net	<u>2,624,584</u>	<u>493,290</u>	<u>3,117,874</u>	<u>3,236,472</u>
Retained earnings:				
Reserved for revenue bond retirement	-	27,853	27,853	814,382
Unreserved	1,077,336	(164,649)	912,687	174,347
Total retained earnings (deficit)	<u>1,077,336</u>	<u>(136,796)</u>	<u>940,540</u>	<u>988,729</u>
TOTAL FUND EQUITY	<u>3,701,920</u>	<u>356,494</u>	<u>4,058,414</u>	<u>4,225,201</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 4,207,862</u>	<u>\$ 1,454,157</u>	<u>\$ 5,662,019</u>	<u>\$ 5,960,465</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004**

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>	
			<u>2004</u>	<u>2003</u>
OPERATING REVENUES:				
Charges for services	\$ 172,810	\$ 266,319	\$ 439,129	\$ 406,323
Interest income and net arrear charges	1,909	1,998	3,907	6,771
Laboratory testing	5,235	10,576	15,811	6,821
Permits, hookups and direct connects	1,400	16,177	17,577	12,543
Miscellaneous	-	6,923	6,923	9,262
North Independence	160	-	160	160
Fire hydrant rental	-	9,900	9,900	9,950
TOTAL OPERATING REVENUES	<u>181,514</u>	<u>311,893</u>	<u>493,407</u>	<u>451,830</u>
OPERATING EXPENSES:				
Employee benefits	122	122	244	6,058
Insurance	13,515	14,400	27,915	18,579
Professional fees - audit and consulting	226,724	179,832	406,556	450,369
Grindstone Road extension	8,415	-	8,415	-
Board fees	1,305	1,305	2,610	2,880
Office expense	-	18	18	21
Maintenance and supplies	-	-	-	3,543
Dues and education	-	-	-	2,081
Depreciation	140,456	62,649	203,105	203,800
Water connection rebate - Village of Port Austin	-	3,316	3,316	736
Equipment	-	-	-	893
Bond retirement	-	-	-	348
Miscellaneous	-	3,141	3,141	-
TOTAL OPERATING EXPENSES	<u>390,537</u>	<u>264,783</u>	<u>655,320</u>	<u>689,308</u>
OPERATING INCOME (LOSS)	<u>(209,023)</u>	<u>47,110</u>	<u>(161,913)</u>	<u>(237,478)</u>

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004
(CONTINUED)**

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>	
			<u>2004</u>	<u>2003</u>
NON-OPERATING REVENUES (EXPENSES):				
Special assessments	\$ 33,525	\$ -	\$ 33,525	\$ 43,920
Special assessment interest	14,435	-	14,435	16,900
	47,960	-	47,960	60,820
Interest on restricted assets	1,618	-	1,618	16,545
Equivalent user charge and connection fees	10,996	-	10,996	4,724
Equivalent user charge interest	7,876	-	7,876	4,531
Revenue bond interest expense	(13,750)	(47,531)	(61,281)	(100,519)
Land contract interest expense	-	(12,043)	(12,043)	(12,208)
	47,960	-	47,960	60,820
TOTAL NON-OPERATING REVENUES (EXPENSES)	54,700	(59,574)	(4,874)	(26,107)
NET INCOME (LOSS)	(154,323)	(12,464)	(166,787)	(263,585)
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS, AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	94,134	24,464	118,598	118,598
INCREASE (DECREASE) IN RETAINED EARNINGS	(60,189)	12,000	(48,189)	(144,987)
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	1,137,525	(148,796)	988,729	1,133,716
RETAINED EARNINGS (DEFICIT) - END OF YEAR	<u>\$ 1,077,336</u>	<u>\$ (136,796)</u>	<u>\$ 940,540</u>	<u>\$ 988,729</u>

The accompanying notes are an integral part of the financial statements.

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>	
			<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 180,900	\$ 304,713	\$ 485,613	\$ 464,350
Cash payments for goods and services	(236,688)	(246,691)	(483,379)	(419,428)
Other operating revenues	160	-	160	370
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(55,628)</u>	<u>58,022</u>	<u>2,394</u>	<u>45,292</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from land contract financing	-	-	-	-
Acquisition of capital assets	(7,700)	(20,162)	(27,862)	(39,317)
Principal paid on revenue bonds	(50,000)	(10,000)	(60,000)	(784,000)
Interest paid on revenue bonds	(13,750)	(47,531)	(61,281)	(100,519)
Principal paid on land contract	-	(1,606)	(1,606)	(3,640)
Interest paid on land contract	-	(12,043)	(12,043)	(12,208)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(71,450)</u>	<u>(91,342)</u>	<u>(162,792)</u>	<u>(939,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Collection of sewer installments and equivalent user charges	66,875	-	66,875	80,249
Interest on investments	1,618	-	1,618	16,545
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>68,493</u>	<u>-</u>	<u>68,493</u>	<u>96,794</u>
NET INCREASE (DECREASE) IN CASH	<u>(58,585)</u>	<u>(33,320)</u>	<u>(91,905)</u>	<u>(797,598)</u>
CASH AT BEGINNING OF YEAR	158,772	120,832	279,604	1,077,202
CASH AT END OF YEAR	<u>\$ 100,187</u>	<u>\$ 87,512</u>	<u>\$ 187,699</u>	<u>\$ 279,604</u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
COMBINED AND COMBINING STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>	
			<u>2004</u>	<u>2003</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (209,023)	\$ 47,110	\$ (161,913)	\$ (237,478)
Adjustments to reconcile operating income				
(loss) to net cash provided by operating activities:				
Depreciation	140,456	62,649	203,105	203,800
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(454)	(7,180)	(7,634)	3,338
(Increase) decrease in inventory	-	-	-	647
(Increase) decrease in prepaid expenses	(1,886)	7,970	6,084	(5,581)
Increase (decrease) in accounts payable	15,279	(52,600)	(37,321)	72,002
Increase (decrease) in due to other governmental units	-	73	73	8,564
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (55,628)</u>	<u>\$ 58,022</u>	<u>\$ 2,394</u>	<u>\$ 45,292</u>

The accompanying notes are an integral part of the financial statements.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF AUTHORITY OPERATIONS:

The Authority operates under an appointed board and provides wastewater collection and treatment services to Village residents and the surrounding area as authorized by its ordinance.

From 1981 through 1984, grant monies and construction were recorded in a construction fund of Port Austin Area Sewer and Water Authority. As of June 1983, assets constructed, along with related obligations, were transferred by action of the Authority to the enterprise fund, concurrent with initiation of facility operations.

As is discussed in Note 7, the Authority entered into a water supply system management contract with the Village of Port Austin, effective March 1, 1996, giving them management responsibility for 40 years. The Water Systems Enterprise Fund has been reported upon in the Authority.

B. REPORTING ENTITY:

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations are not considered to be part of the Authority entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements are discussed in the following paragraphs.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

On this basis, the financial statements of the Village of Port Austin, which operates autonomously, are not included in the financial statements of the Authority.

C. BASIS OF PRESENTATION

The financial activities of the Authority are recorded in a fund categorized and described as follows:

PROPRIETARY FUND TYPE:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Property, Plant, and Equipment - Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective class of assets, ranging from 10 to 50 years.

Inventory - Inventory in the Enterprise Fund is valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an expense at the time individual inventory items are consumed.

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. BASIS OF ACCOUNTING

The accounting policies of the Port Austin Area Sewer and Water Authority conform to generally accepted accounting principles as applicable to governmental units. The accrual basis of accounting is followed by Proprietary Fund Types.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS:

In accordance with Michigan Compiled Laws, the Port Austin Area Sewer and Water Authority is authorized to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest classifications of two rating services; United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

As Of February 29, 2004, the carrying amount of cash was \$187,699, which consists of deposits in savings accounts, deposit accounts and checking accounts, and is insured for \$100,000 by the FDIC. The bank balance was \$187,812, as of February 29, 2004.

NOTE 3 - SUMMARY OF PROPRIETARY FUND FIXED ASSETS:

SANITARY SEWER ENTERPRISE FUND:

Property, plant and equipment - at cost:

Land	\$ 51,225
Sewer facility planning and system	4,142,886
Sewer plant	2,200,415
Equipment	168,126
Furniture and fixtures	61,706
	<u>6,624,358</u>
Less: Accumulated depreciation	(2,766,775)

PROPERTY, PLANT AND EQUIPMENT - NET

\$ 3,857,583

WATER SYSTEMS ENTERPRISE FUND:

Property, plant and equipment - at cost:

Land	\$ 209,645
Water treatment plant	368,446
Water tower	146,100
Equipment	94,660
Water intake	1,475,000
	<u>2,293,851</u>
Less: Accumulated depreciation	(1,009,518)

PROPERTY, PLANT AND EQUIPMENT - NET

\$ 1,284,333

Included in expenses were depreciation charges totaling the following:

Sanitary Sewer Enterprise Fund	<u>\$ 140,456</u>
Water Systems Enterprise Fund	<u>\$ 62,649</u>

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

NOTE 4 - ASSESSMENTS RECEIVABLE:

In conjunction with the construction of the sanitary sewer facilities, the Port Austin Area Sewer and Water Authority sold bonds to finance 20% of said construction. To retire these bonds, assessments have been assigned to the benefited properties.

(Continued)

Assessments receivable are carried as accounts receivable from the benefited property owners. The receivables carry an interest rate of 6% and amounted to \$205,288 at February 29, 2004. The assessments receivable are restricted for payment of the outstanding Sewage Disposal System Limited Tax General Obligation Bonds.

NOTE 5 - LONG-TERM DEBT:

BONDS:

The following is a summary of bond transactions for the Port Austin Area Sewer and Water Authority:

	<u>SANITARY SEWER ENTERPRISE FUND</u>	<u>WATER SYSTEMS ENTERPRISE FUND</u>
Bonds payable at March 1	\$ 300,000	\$ 933,000
Bonds retired	(50,000)	(10,000)
	<u>\$ 250,000</u>	<u>\$ 923,000</u>

Bonds payable in the Sanitary Sewer Enterprise Fund consist of Sewage Disposal System bonds issued December 3, 1981 through May 17, 1984, and are payable in annual installments per schedule, plus 5% interest through May 1, 2008.

Amount drawn to date	\$ 2,025,000
Cumulative payments	<u>(1,775,000)</u>
Balance due at end of year	250,000
Less: Current maturities	(50,000)
	<u>\$ 200,000</u>

The bonds issued are pursuant to an agreement with the State of Michigan, Department of Treasury Municipal Finance Commission in an approved amount of \$2,025,000 of Port Austin Area Sewer and Water Authority Sewage Disposal System limited Tax General Obligation Bonds.

The 1995 Water Revenue Bonds payable in the Water Systems Enterprise Fund were loaned by the Rural Economic and Community Development Department (United States Department of Agriculture) to construct a water intake system that was completed in October, 1995. The following is a summary of the bonds payable in the Water Systems Enterprise Fund:

	SERIES A	SERIES B	TOTAL
Amount drawn to date	\$ 500,000	\$ 475,000	\$ 975,000
Cumulative payments	<u>(27,000)</u>	<u>(25,000)</u>	<u>(52,000)</u>
Balance due at end of year	473,000	450,000	923,000
Less: Current maturities	(5,000)	(6,000)	(11,000)
	<u>\$ 468,000</u>	<u>\$ 444,000</u>	<u>\$ 912,000</u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

NOTE 5 - LONG-TERM DEBT: (Continued)

The bonds are payable in annual installments per schedule through May 1, 2035. The bonds are self-liquidating and are not a general obligation of the Village of Port Austin.

The annual requirements to amortize the above bonds at February 29, 2004 are as follows:

	<u>SEWER</u>	<u>WATER</u>	<u>TOTAL</u>
2005	\$ 50,000	\$ 11,000	\$ 61,000
2006	50,000	11,000	61,000
2007	50,000	11,000	61,000
2008	50,000	13,000	63,000
2009	50,000	13,000	63,000
2010-2014	-	89,000	89,000
2015-2019	-	110,000	110,000
2020-2024	-	140,000	140,000
2025-2029	-	185,000	185,000
2030-2034	-	230,000	230,000
2035-2039	-	110,000	110,000
	<u>\$ 250,000</u>	<u>\$ 923,000</u>	<u>\$ 1,173,000</u>

LAND CONTRACTS PAYABLE:

On January 18, 2002, the Authority agreed to purchase land and a building within the Village as a possible site for a proposed new water treatment plant. The cost of the property was \$185,000 and \$30,000 was paid as a down payment. A 30-year land contract was entered into with the sellers for the unpaid balance of \$155,000. The interest rate of the land contract is 8% and monthly payments of \$1,137 including interest began on February 18, 2002. The following is a listing of future principal requirements to amortize the land contract:

2005	\$ 1,739
2006	1,883
2007	2,039
2008	2,209
2009	2,392
2010-2014	15,289
2015-2019	22,778
2020-2024	33,936
2025-2029	50,559
2030-2034	16,826
	<u>\$ 149,650</u>

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(Continued)

NOTE 6 - SEGMENT INFORMATION:

The Sewer and Water Authority operates and reports as an enterprise fund. The Authority provides sanitary sewer service to the general public in the area of the Village of Port Austin.

	<u>SANITARY SEWER ENTERPRISE FUND</u>	<u>WATER SYSTEMS ENTERPRISE FUND</u>
Operating revenues	\$ 181,514	\$ 311,893
Operating expenses:		
Depreciation	\$ 140,456	\$ 62,649
Other	\$ 250,081	\$ 202,134
Operating income (loss)	\$ (209,023)	\$ 47,110
Non-operating revenues (expenses)	\$ 54,700	\$ (59,574)
Net income (loss)	\$ (154,323)	\$ (12,464)
Net working capital (deficit)	\$ (108,875)	\$ 104,219
Total assets	\$ 4,207,862	\$ 1,454,157
Bonds payable	\$ 250,000	\$ 923,000
Fund equity:		
Contributed capital (net of amortization)	\$ 2,624,584	\$ 493,290
Retained earnings (deficit)	\$ 1,077,336	\$ (136,796)

NOTE 7 - WATER SUPPLY SYSTEM MANAGEMENT CONTRACT:

Effective March 1, 1996 the Port Austin Area Sewer and Water Authority entered into a water supply system management contract with the Village of Port Austin and the Township of Port Austin. Major elements of the agreement are as follows:

- The Authority will manage, operate, maintain and administer the water system for the Village and the Township and will comply with all requirements of the Rural Economic and Community Development Agency of the United States Department of Agriculture relative to outstanding Village bonds.
- Rates charged to customers will be recommended by the Authority and adopted by ordinance in each local unit.
- The Authority will prepare the annual budget.
- The Authority will prepare an annual report of its management of the water system and have an annual audited financial report.
- The local units will hold legal title to the system for assets transferred at the onset of the agreement.
- The term of the agreement is 40 years.

Because of the term of the agreement, the former Water Fund in the Village of Port Austin is now being reported upon in the financial statements of the Port Austin Area Sewer and Water Authority.

NOTE 8 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates in the Michigan Municipal Liability and Property Pool for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability. The Pool operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(CONTINUED)**

NOTE 9 - SERVICE AGREEMENT:

During the year ended February 28, 2002, the Authority entered into an agreement with Facilities Management, Inc. to provide operational services. The initial term of the agreement is for three years, commencing June 5, 2001, and has renewal options. The annual base fee for the water system and the wastewater system is \$392,160 (billed \$32,680 monthly). Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or for a greater than 5% increase in utility rates. Additionally, the Authority will pay for all capital expenditures and will maintain general liability, personal injury and property insurance on the facilities. Major services provided by Facilities Management, Inc. include:

- 1) Day to day operational costs of the water and wastewater system, including labor costs, utility costs and chemical costs.
- 2) Preventative and corrective maintenance and repairs, up to \$40,000 per year.
- 3) Perform reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state, and federal regulatory agencies.

NOTE 10 – DELINQUENT FUNDING REQUIREMENTS:

As a result of various ordinances, policies and/or bond provisions, the Authority is required to segregate funds on a monthly basis to provide for future payments. As of February 29, 2004, the Authority was delinquent in transferring these funds as follows:

	REQUIRED MONTHLY AMOUNT	TOTAL DELINQUENCY AT FEBRUARY 29, 2004
Water improvement	\$ 200	\$ 4,800
Water replacement	417	10,008
Water revenue bond	510	4,590
Water bond and interest	4,910	29,460
Sewer replacement	1,500	6,000
Sewer bond	520	2,080
TOTAL	<u>\$ 8,057</u>	<u>\$ 56,938</u>

NOTE 11 – SUBSEQUENT EVENTS:

Regional Water Authority Management Contract

On March 1, 2004 the City of Bad Axe and the Village of Port Austin agreed to a regional water supply system management contract within the Huron Regional Water Authority. The purpose of the contract is to supply lake water to the City, the Village and immediate surrounding areas. Major provisions of the 40-year contract include the following:

- 1) Construction of a new water plant on land currently owned by the Port Austin Area Sewer and Water Authority.
- 2) Upon payment of the water intake bonds and land contract, the Port Austin Area Sewer and Water Authority will deed the water intake system and the land to the Huron Regional Water Authority.
- 3) The Huron Regional Water Authority will be responsible for operation and maintenance of all shared facilities (water intake, treatment plant and pumping and transmission lines to the local units of government).
- 4) The City of Bad Axe and the Port Austin Area Sewer and Water Authority will purchase water from the Huron Regional Water Authority and will be responsible for their own local distribution and billing.

(Continued)

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 29, 2004
(CONTINUED)**

NOTE 11 – SUBSEQUENT EVENTS: (Continued)

Repayment of Regional Water Authority Costs

As mentioned above, the Huron Regional Water Authority was established on March 1, 2004. As part of the agreement with the Regional Water Authority, the Port Austin Area Sewer and Water Authority is scheduled to receive approximately \$126,000 for various costs that they incurred related to the Regional Authority. These are costs primarily related to the purchase of land and various legal and engineering fees that were previously expensed. It is anticipated that the costs will be repaid in August, 2004.

SUPPLEMENTAL INFORMATION

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
SANITARY SEWER ENTERPRISE FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 29, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ (53,025)	\$ (27,311)
Accounts receivable	30,832	30,378
Inventory	2,348	2,348
Prepaid expense	11,624	9,738
TOTAL CURRENT ASSETS	<u>(8,221)</u>	<u>15,153</u>
RESTRICTED ASSETS - BOND RETIREMENT AND EQUIPMENT REPLACEMENT:		
Cash in bank - savings	153,212	186,083
Assessments receivable	205,288	237,773
Direct connection receivable	-	363
TOTAL RESTRICTED ASSETS	<u>358,500</u>	<u>424,219</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST	6,624,358	6,616,658
LESS: ACCUMULATED DEPRECIATION	(2,766,775)	(2,626,319)
PROPERTY, PLANT AND EQUIPMENT - NET	<u>3,857,583</u>	<u>3,990,339</u>
TOTAL ASSETS	<u><u>\$ 4,207,862</u></u>	<u><u>\$ 4,429,711</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES:		
Revenue bonds payable - current	\$ 50,000	\$ 50,000
Accounts payable	50,654	35,375
TOTAL CURRENT LIABILITIES	<u>100,654</u>	<u>85,375</u>
LONG-TERM OBLIGATIONS:		
Bonds payable	250,000	300,000
Less: Current maturities	(50,000)	(50,000)
TOTAL LONG-TERM OBLIGATIONS	<u>200,000</u>	<u>250,000</u>
DEFERRED ASSESSMENT REVENUE	205,288	238,093
TOTAL LIABILITIES	<u>505,942</u>	<u>573,468</u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
SANITARY SEWER ENTERPRISE FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 29, 2004 AND 2003
(Continued)

	<u>2004</u>	<u>2003</u>
FUND EQUITY:		
Contributed capital (Federal revenue sharing)	\$ 51,225	\$ 51,225
Contributions and grants in aid of construction	4,497,521	4,497,521
	<u>4,548,746</u>	<u>4,548,746</u>
Less: Accumulated depreciation	(1,924,162)	(1,830,028)
Contributed capital - net	<u>2,624,584</u>	<u>2,718,718</u>
Retained earnings:		
Reserved for revenue bond retirement	-	738,558
Unreserved	1,077,336	398,967
Total retained earnings	<u>1,077,336</u>	<u>1,137,525</u>
TOTAL FUND EQUITY	<u>3,701,920</u>	<u>3,856,243</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 4,207,862</u></u>	<u><u>\$ 4,429,711</u></u>

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
SANITARY SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES:		
Charges for services	\$ 172,810	\$ 173,795
Interest income and net arrear charges	1,909	2,812
Laboratory testing	5,235	6,821
Direct connection fees	1,360	-
Sewer permits	40	-
Miscellaneous	-	210
North Independence	160	160
TOTAL OPERATING REVENUES	<u>181,514</u>	<u>183,798</u>
OPERATING EXPENSES:		
Employee benefits	122	3,029
Insurance	13,515	8,182
Professional fees - audit and consulting	226,724	188,344
Grindstone Road extension	8,415	-
Board fees	1,305	1,440
Office expense	-	8
Maintenance and supplies	-	2,088
Depreciation	140,456	141,823
Equipment	-	893
Bond retirement	-	348
TOTAL OPERATING EXPENSES	<u>390,537</u>	<u>346,155</u>
OPERATING INCOME (LOSS)	<u>(209,023)</u>	<u>(162,357)</u>
NON-OPERATING REVENUES (EXPENSES):		
Special assessments	33,525	43,920
Special assessment interest	14,435	16,900
	<u>47,960</u>	<u>60,820</u>
Interest on restricted assets	1,618	16,545
Equivalent user charge and connection fees	10,996	4,724
Equivalent user charge interest	7,876	4,531
Revenue bond interest expense	(13,750)	(52,500)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>54,700</u>	<u>34,120</u>
NET INCOME (LOSS)	<u>(154,323)</u>	<u>(128,237)</u>

(Continued)

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
SANITARY SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003
 (CONTINUED)

	<u>2004</u>	<u>2003</u>
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS, AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	\$ 94,134	\$ 94,134
INCREASE (DECREASE) IN RETAINED EARNINGS	<u>(60,189)</u>	<u>(34,103)</u>
RETAINED EARNINGS - BEGINNING OF YEAR	1,137,525	1,171,628
RETAINED EARNINGS - END OF YEAR	<u><u>\$ 1,077,336</u></u>	<u><u>\$ 1,137,525</u></u>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
SANITARY SEWER ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 180,900	\$ 188,041
Cash payments for goods and services	(236,688)	(184,313)
Other operating revenues	160	370
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(55,628)</u>	<u>4,098</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(7,700)	(17,458)
Principal paid on revenue bonds	(50,000)	(775,000)
Interest paid on revenue bonds	(13,750)	(52,500)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(71,450)</u>	<u>(844,958)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of sewer installments and equivalent user charges	66,875	80,249
Interest on investments	1,618	16,545
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>68,493</u>	<u>96,794</u>
NET INCREASE (DECREASE) IN CASH	<u>(58,585)</u>	<u>(744,066)</u>
CASH AT BEGINNING OF YEAR	158,772	902,838
CASH AT END OF YEAR	<u>\$ 100,187</u>	<u>\$ 158,772</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (209,023)	\$ (162,357)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	140,456	141,823
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(454)	4,613
Decrease in inventory	-	989
(Increase) in prepaid expenses	(1,886)	(6)
Increase in accounts payable	15,279	19,036
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (55,628)</u>	<u>\$ 4,098</u>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
WATER SYSTEMS ENTERPRISE FUND
COMPARATIVE BALANCE SHEETS
FEBRUARY 29, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 59,659	\$ 45,008
Accounts receivable	65,949	58,769
Inventory	11,640	11,640
Prepaid expense	4,723	12,693
TOTAL CURRENT ASSETS	<u>141,971</u>	<u>128,110</u>
RESTRICTED ASSETS:		
Passbook savings	<u>27,853</u>	<u>75,824</u>
PROPERTY, PLANT AND EQUIPMENT - AT COST	2,293,851	2,273,689
LESS: ACCUMULATED DEPRECIATION	<u>(1,009,518)</u>	<u>(946,869)</u>
PROPERTY, PLANT AND EQUIPMENT - NET	1,284,333	1,326,820
TOTAL ASSETS	<u><u>\$ 1,454,157</u></u>	<u><u>\$ 1,530,754</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
CURRENT LIABILITIES:		
Current maturities of 1995 Water Revenue Bonds	\$ 11,000	\$ 10,000
Land contract payable - current portion	1,739	1,606
Accounts payable	16,706	69,306
Due to other governmental units - Village of Port Austin	<u>8,307</u>	<u>8,234</u>
TOTAL CURRENT LIABILITIES	<u>37,752</u>	<u>89,146</u>
LONG-TERM OBLIGATIONS:		
1995 Water Revenue Bonds	923,000	933,000
Land contract payable	149,650	151,256
Less: Current maturities	<u>(12,739)</u>	<u>(11,606)</u>
TOTAL LONG-TERM OBLIGATIONS	<u>1,059,911</u>	<u>1,072,650</u>
FUND EQUITY:		
Contributions and grants in aid of construction - water intake system	500,000	500,000
Contributions and grants in aid of construction - prior	366,940	366,940
Less: Depreciation	<u>(373,650)</u>	<u>(349,186)</u>
Contributed capital - net	<u>493,290</u>	<u>517,754</u>
Retained earnings (deficit):		
Reserved for revenue bond retirement	27,853	75,824
Unreserved	<u>(164,649)</u>	<u>(224,620)</u>
Total retained earnings (deficit)	<u>(136,796)</u>	<u>(148,796)</u>
TOTAL FUND EQUITY	<u>356,494</u>	<u>368,958</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 1,454,157</u></u>	<u><u>\$ 1,530,754</u></u>

PORT AUSTIN AREA SEWER AND WATER AUTHORITY
WATER SYSTEMS ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES:		
Water sales	\$ 266,319	\$ 232,528
Water hookup and direct connect charges	16,137	12,543
Miscellaneous	17,539	9,052
Interest	339	1,862
Delinquent charge	1,659	2,097
Fire hydrant rental	9,900	9,950
TOTAL OPERATING REVENUES	<u>311,893</u>	<u>268,032</u>
OPERATING EXPENSES:		
Employee benefits	122	3,029
Office expense	18	13
Maintenance and supplies	-	1,455
Insurance	14,400	10,397
Professional fees - audit and consulting	179,832	262,025
Depreciation	62,649	61,977
Board fees	1,305	1,440
Dues and membership fees	-	2,081
Water connection rebate - Village of Port Austin	3,316	736
Miscellaneous	3,141	-
TOTAL OPERATING EXPENSES	<u>264,783</u>	<u>343,153</u>
OPERATING INCOME	<u>47,110</u>	<u>(75,121)</u>
NONOPERATING EXPENSES:		
Interest	(59,574)	(60,227)
NET INCOME (LOSS)	<u>(12,464)</u>	<u>(135,348)</u>
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS, AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	24,464	24,464
INCREASE (DECREASE) IN RETAINED EARNINGS	<u>12,000</u>	<u>(110,884)</u>
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	(148,796)	(37,912)
RETAINED EARNINGS (DEFICIT) - END OF YEAR	<u><u>\$ (136,796)</u></u>	<u><u>\$ (148,796)</u></u>

**PORT AUSTIN AREA SEWER AND WATER AUTHORITY
WATER SYSTEMS ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 304,713	\$ 276,309
Cash payments for goods and services	(246,691)	(235,115)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>58,022</u>	<u>41,194</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(20,162)	(21,859)
Principal payment on revenue bonds	(10,000)	(9,000)
Interest payment on revenue bonds	(47,531)	(48,019)
Principal payment on land contract	(1,606)	(3,640)
Interest payment on land contract	(12,043)	(12,208)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(91,342)</u>	<u>(94,726)</u>
NET INCREASE (DECREASE) IN CASH	<u>(33,320)</u>	<u>(53,532)</u>
CASH AT BEGINNING OF YEAR	120,832	174,364
CASH AT END OF YEAR	<u><u>\$ 87,512</u></u>	<u><u>\$ 120,832</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 47,110	\$ (75,121)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	62,649	61,977
Change in assets and liabilities:		
(Increase) in accounts receivable	(7,180)	(1,275)
(Increase) in inventory	-	(342)
(Increase) decrease in prepaid expense	7,970	(5,575)
Decrease in due from other governmental units - Port Austin/Bad Axe Regional Water Authority	-	9,552
Increase (decrease) in accounts payable	(52,600)	52,966
Increase (decrease) in due to other governmental units - Village of Port Austin	73	(988)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 58,022</u></u>	<u><u>\$ 41,194</u></u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF FIXED ASSETS
FOR THE YEAR ENDED FEBRUARY 29, 2004**

	FIXED ASSETS				ACCUMULATED DEPRECIATION				NET ASSET COST
	BALANCE MARCH 1, 2003	ADDITIONS	DISPOSALS	BALANCE FEBRUARY 29, 2004	BALANCE MARCH 1, 2003	PROVISION FOR DEPRECIATION	DISPOSALS	BALANCE FEBRUARY 29, 2004	
SANITARY SEWER FUND:									
Land	\$ 51,225	\$ -	\$ -	\$ 51,225	\$ -	\$ -	\$ -	\$ -	\$ 51,225
Sewer facility planning	1,398,274	-	-	1,398,274	545,333	27,966	-	573,299	824,975
Sewer system	2,744,612	-	-	2,744,612	1,037,573	56,106	-	1,093,679	1,650,933
Sewer plant	2,200,415	-	-	2,200,415	857,248	44,717	-	901,965	1,298,450
Machinery and equipment	160,426	7,700	-	168,126	125,963	10,666	-	136,629	31,497
Furniture and fixtures	61,706	-	-	61,706	60,202	1,001	-	61,203	503
TOTAL	<u>\$ 6,616,658</u>	<u>\$ 7,700</u>	<u>\$ -</u>	<u>\$ 6,624,358</u>	<u>\$ 2,626,319</u>	<u>\$ 140,456</u>	<u>\$ -</u>	<u>\$ 2,766,775</u>	<u>\$ 3,857,583</u>
WATER SYSTEMS FUND:									
Land	\$ 209,645	\$ -	\$ -	\$ 209,645	\$ -	\$ -	\$ -	\$ -	\$ 209,645
Water treatment plant	368,446	-	-	368,446	353,547	2,295	-	355,842	12,604
Water tower	125,938	20,162	-	146,100	125,938	672	-	126,610	19,490
Equipment	94,660	-	-	94,660	78,566	5,551	-	84,117	10,543
Water intake	1,475,000	-	-	1,475,000	388,818	54,131	-	442,949	1,032,051
TOTAL	<u>\$ 2,273,689</u>	<u>\$ 20,162</u>	<u>\$ -</u>	<u>\$ 2,293,851</u>	<u>\$ 946,869</u>	<u>\$ 62,649</u>	<u>\$ -</u>	<u>\$ 1,009,518</u>	<u>\$ 1,284,333</u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF SEWAGE DISPOSAL SYSTEM BONDS
FEBRUARY 29, 2004**

MATURITY DATE	AMOUNT PAYABLE AT EACH MATURITY DATE			
	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
05/01/04	\$ 50,000	5.00%	\$ 6,250	\$ 56,250
11/01/04		5.00%	5,000	5,000
05/01/05	50,000	5.00%	5,000	55,000
11/01/05		5.00%	3,750	3,750
05/01/06	50,000	5.00%	3,750	53,750
11/01/06		5.00%	2,500	2,500
05/01/07	50,000	5.00%	2,500	52,500
11/01/07		5.00%	1,250	1,250
05/01/08	50,000	5.00%	1,250	51,250
	<u>\$ 250,000</u>		<u>\$ 31,250</u>	<u>\$ 281,250</u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF 1995 WATER REVENUE BONDS - SERIES A
FEBRUARY 29, 2004**

MATURITY DATE	AMOUNT PAYABLE AT EACH MATURITY DATE				TOTAL
	PRINCIPAL	INTEREST			
		RATE	AMOUNT		
05/01/04	\$ 5,000	5.00%	\$ 11,825	\$ 16,825	
11/01/04		5.00%	11,700	11,700	
05/01/05	5,000	5.00%	11,700	16,700	
11/01/05		5.00%	11,575	11,575	
05/01/06	5,000	5.00%	11,575	16,575	
11/01/06		5.00%	11,450	11,450	
05/01/07	6,000	5.00%	11,450	17,450	
11/01/07		5.00%	11,300	11,300	
05/01/08	6,000	5.00%	11,300	17,300	
11/01/08		5.00%	11,150	11,150	
05/01/09	7,000	5.00%	11,150	18,150	
11/01/09		5.00%	10,975	10,975	
05/01/10	7,000	5.00%	10,975	17,975	
11/01/10		5.00%	10,800	10,800	
05/01/11	7,000	5.00%	10,800	17,800	
11/01/11		5.00%	10,625	10,625	
05/01/12	10,000	5.00%	10,625	20,625	
11/01/12		5.00%	10,375	10,375	
05/01/13	10,000	5.00%	10,375	20,375	
11/01/13		5.00%	10,150	10,150	
05/01/14	10,000	5.00%	10,150	20,150	
11/01/14		5.00%	9,875	9,875	
05/01/15	10,000	5.00%	9,875	19,875	
11/01/15		5.00%	9,625	9,625	
05/01/16	10,000	5.00%	9,625	19,625	
11/01/16		5.00%	9,375	9,375	
05/01/17	15,000	5.00%	9,375	24,375	
11/01/17		5.00%	9,000	9,000	
05/01/18	15,000	5.00%	9,000	24,000	
11/01/18		5.00%	8,625	8,625	
05/01/19	15,000	5.00%	8,625	23,625	
11/01/19		5.00%	8,250	8,250	
05/01/20	15,000	5.00%	8,250	23,250	
11/01/20		5.00%	7,875	7,875	
05/01/21	15,000	5.00%	7,875	22,875	
11/01/21		5.00%	7,500	7,500	
05/01/22	15,000	5.00%	7,500	22,500	
11/01/22		5.00%	7,125	7,125	
05/01/23	15,000	5.00%	7,125	22,125	
11/01/23		5.00%	6,750	6,750	
05/01/24	20,000	5.00%	6,750	26,750	
11/01/24		5.00%	6,250	6,250	
05/01/25	20,000	5.00%	6,250	26,250	
11/01/25		5.00%	5,750	5,750	

(Continued)

PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF 1995 WATER REVENUE BONDS - SERIES A
FEBRUARY 29, 2004
(Continued)

MATURITY DATE	AMOUNT PAYABLE AT EACH MATURITY DATE			TOTAL
	PRINCIPAL	INTEREST RATE	AMOUNT	
05/01/26	\$ 20,000	5.00%	\$ 5,750	\$ 25,750
11/01/26		5.00%	5,250	5,250
05/01/27	20,000	5.00%	5,250	25,250
11/01/27		5.00%	4,750	4,750
05/01/28	20,000	5.00%	4,750	24,750
11/01/28		5.00%	4,250	4,250
05/01/29	20,000	5.00%	4,250	24,250
11/01/29		5.00%	3,750	3,750
05/01/30	25,000	5.00%	3,750	28,750
11/01/30		5.00%	3,125	3,125
05/01/31	25,000	5.00%	3,125	28,125
11/01/31		5.00%	2,500	2,500
05/01/32	25,000	5.00%	2,500	27,500
11/01/32		5.00%	1,875	1,875
05/01/33	25,000	5.00%	1,875	26,875
11/01/33		5.00%	1,250	1,250
05/01/34	25,000	5.00%	1,250	26,250
11/01/34		5.00%	625	625
05/01/35	25,000	5.00%	625	25,625
	<u>\$ 473,000</u>		<u>\$ 478,775</u>	<u>\$ 951,775</u>

**PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF 1995 WATER REVENUE BONDS - SERIES B
FEBRUARY 29, 2004**

MATURITY DATE	AMOUNT PAYABLE AT EACH MATURITY DATE				TOTAL
	PRINCIPAL	INTEREST			
		RATE	AMOUNT		
05/01/04	\$ 6,000	5.25%	\$ 11,812	\$ 17,812	
11/01/04		5.25%	11,655	11,655	
05/01/05	6,000	5.25%	11,655	17,655	
11/01/05		5.25%	11,498	11,498	
05/01/06	6,000	5.25%	11,497	17,497	
11/01/06		5.25%	11,340	11,340	
05/01/07	7,000	5.25%	11,340	18,340	
11/01/07		5.25%	11,156	11,156	
05/01/08	7,000	5.25%	11,156	18,156	
11/01/08		5.25%	10,973	10,973	
05/01/09	8,000	5.25%	10,972	18,972	
11/01/09		5.25%	10,763	10,763	
05/01/10	10,000	5.25%	10,762	20,762	
11/01/10		5.25%	10,500	10,500	
05/01/11	10,000	5.25%	10,500	20,500	
11/01/11		5.25%	10,238	10,238	
05/01/12	10,000	5.25%	10,237	20,237	
11/01/12		5.25%	9,975	9,975	
05/01/13	10,000	5.25%	9,975	19,975	
11/01/13		5.25%	9,713	9,713	
05/01/14	10,000	5.25%	9,712	19,712	
11/01/14		5.25%	9,450	9,450	
05/01/15	10,000	5.25%	9,450	19,450	
11/01/15		5.25%	9,188	9,188	
05/01/16	10,000	5.25%	9,187	19,187	
11/01/16		5.25%	8,925	8,925	
05/01/17	10,000	5.25%	8,925	18,925	
11/01/17		5.25%	8,663	8,663	
05/01/18	10,000	5.25%	8,662	18,662	
11/01/18		5.25%	8,400	8,400	
05/01/19	10,000	5.25%	8,400	18,400	
11/01/19		5.25%	8,138	8,138	
05/01/20	10,000	5.25%	8,137	18,137	
11/01/20		5.25%	7,875	7,875	
05/01/21	15,000	5.25%	7,875	22,875	
11/01/21		5.25%	7,481	7,481	
05/01/22	15,000	5.25%	7,481	22,481	
11/01/22		5.25%	7,088	7,088	
05/01/23	15,000	5.25%	7,087	22,087	
11/01/23		5.25%	6,694	6,694	
05/01/24	15,000	5.25%	6,694	21,694	
11/01/24		5.25%	6,300	6,300	
05/01/25	15,000	5.25%	6,300	21,300	
11/01/25		5.25%	5,906	5,906	

(Continued)

PORT AUSTIN SEWER AND WATER AUTHORITY
SCHEDULE OF 1995 WATER REVENUE BONDS - SERIES B
FEBRUARY 29, 2004
(Continued)

MATURITY DATE	AMOUNT PAYABLE AT EACH MATURITY DATE			TOTAL
	PRINCIPAL	INTEREST RATE	AMOUNT	
05/01/26	\$ 15,000	5.00%	\$ 5,906	\$ 20,906
11/01/26		5.00%	5,513	5,513
05/01/27	20,000	5.00%	5,512	25,512
11/01/27		5.00%	4,988	4,988
05/01/28	20,000	5.00%	4,987	24,987
11/01/28		5.00%	4,463	4,463
05/01/29	20,000	5.00%	4,462	24,462
11/01/29		5.00%	3,938	3,938
05/01/30	20,000	5.00%	3,937	23,937
11/01/30		5.00%	3,413	3,413
05/01/31	20,000	5.00%	3,412	23,412
11/01/31		5.00%	2,888	2,888
05/01/32	25,000	5.00%	2,887	27,887
11/01/32		5.00%	2,231	2,231
05/01/33	25,000	5.00%	2,231	27,231
11/01/33		5.00%	1,575	1,575
05/01/34	30,000	5.00%	1,575	31,575
11/01/34		5.00%	788	788
05/01/35	30,000	5.00%	787	30,787
	<u>\$ 450,000</u>		<u>\$ 475,228</u>	<u>\$ 925,228</u>

July 23, 2004

Honorable Authority Members
Port Austin Area Sewer and Water Authority
Port Austin, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Port Austin Area Sewer and Water Authority, for the year ended February 29, 2004, and is submitted for your evaluation and consideration. We would like to emphasize that since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

Water Fund - Fund Deficit

For the year ended February 29, 2004, the Authority has an accumulated retained earnings deficit of \$136,796 in the Water Fund. We recommend that the Authority institute a deficit reduction plan to eliminate the deficit.

These recommendations and comments are submitted to you for your consideration. Our firm will assist in implementing any recommendation approved by the Authority. We wish to take this opportunity to thank the Authority officials with whom we have worked for the cooperation we received throughout our audit.

Sincerely,

A handwritten signature in black ink that reads "Brining & Martker, P.C." in a cursive, flowing script.

BRINING & MARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS